UNITED STATES DISTRICT COURT

DISTRICT OF MAINE

RICHARD MITRANO, D/B/A MITRANO ENGINEERING, Plaintiff v. NEW VED, INC. and NEGANTIS, INC., Defendants	Civil No. 95-169-P-C

GENE CARTER, Chief Judge

MEMORANDUM AND ORDER DENYING DEFENDANTS' MOTION FOR SUMMARY JUDGMENT

Plaintiff Richard Mitrano has filed the present action against Defendants New VED, Inc. ("New VED") and Negantis, Inc. ("Negantis") for their alleged failure to pay royalty payments to him for a device that he designed.[1] Now before the Court is Defendants' Motion for Summary Judgment (Docket No. 12). Because the Court concludes that material facts remain in dispute and

[1] Several of the original defendants in this case have been dismissed. For example, Spirometrics, Inc. was dismissed by order of this Court on October 17, 1995 (Docket No. 9). In addition, since the filing of the instant motion, the parties agreed, in the final pretrial conference, to dismiss the first count of the Complaint against all Defendants and to dismiss the second count against all Defendants except Negantis and New VED. See Order (Docket No. 20). Therefore, the only counts remaining are Count II (violation of the Uniform Fraudulent Transfer Act) against New VED and Negantis and Count III (breach of contract) against Negantis.

that Defendants are not entitled to a judgment as a matter of law, this Court will deny the motion.

I. SUMMARY JUDGMENT STANDARD

The Court of Appeals for the First Circuit has recently explained once again the workings and purposes of the summary judgment procedure:

> Summary judgment has a special niche in civil litigation. Its "role is to pierce the boilerplate of the pleadings and assay the parties' proof in order to determine whether trial is actually required." Wynne v. Tufts Univ. Sch. of Med., 976 F.2d 791, 794 (1st Cir. 1992), cert. denied, 113 S. Ct. 1845 (1993). The device allows courts and litigants to avoid full-blown trials in unwinnable cases, thus conserving the parties' time and money, and permitting courts to husband scarce judicial resources.
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> A court may grant summary judgment "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed. R. Civ. P. 56(c). . . .
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> Once a properly documented motion has engaged the gears of Rule 56, the party to whom the motion is directed can shut down the machinery only by showing that a trialworthy issue exists. See National Amusements [v. Town of Dedham], 43 F.3d [731,] 735 [(1st Cir. 1995)]. As to issues on which the summary judgment target bears the ultimate burden of proof, she cannot rely on an absence of competent evidence, but must affirmatively point to specific facts that demonstrate the existence of an authentic dispute. See Garside [v. Osco Drug. Inc.], 895 F.2d [46,] 48 [(1st. Cir. 1990)]. Not every factual dispute is sufficient to thwart summary judgment; the contested fact must be "material" and the dispute over it must be "genuine." In this regard, "material" means that a contested fact has the potential to change the outcome of the suit under the governing law if the dispute over it is resolved favorably to the nonmovant. See [United

> States v.] One Parcel [of Real Property with Buildings], 960 F.2d [200,] 204 [(1st Cir. 1992)]. By like token, "genuine" means that "the evidence about the fact is such that a reasonable jury could resolve the point in favor of the nonmoving party . . . ." Id.
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> When all is said and done, the trial court must "view the entire record in the light most hospitable to the party opposing summary judgment, indulging all reasonable inferences in that party's favor," Griggs-Ryan [v. Smith], 904 F.2d [112,] 115 [(1st Cir. 1990)], but paying no heed to "conclusory allegations, improbable inferences, [or] unsupported speculation," Medina-Munoz [v. R.J. Reynolds Tobacco Co.], 896 F.2d [5,] 8 [(1st Cir. 1990)]. If no genuine issue of material fact emerges, then the motion for summary judgment may be granted.
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> . . . [T]he summary judgment standard requires the trial court to make an essentially legal determination rather than to engage in differential factfinding . . . .

McCarthy v. Northwest Airlines, Inc., 56 F.3d 313, 314-15 (1st Cir. 1995).

II. FACTS

Plaintiff is an individual who does business as Mitrano Engineering, a sole proprietorship in Andover, Massachusetts. Affidavit of Richard Mitrano (Docket No. 14) ¶ 1 ("Mitrano Affidavit"). Spirometrics is a medical equipment company with its principal place of business in Auburn, Maine. Representatives of Spirometrics asked Plaintiff if he could design a pulmonary monitoring device known as a peak flow monitor ("monitor") suitable for sale on the market. Mitrano Affidavit ¶ 2. Plaintiff subsequently designed such a product, and Spirometrics submitted it to the FDA for approval. Deposition of

Richard Mitrano, January 24, 1996, at 42-45 ("Mitrano Deposition").

On January 8, 1993, Plaintiff and Spirometrics entered into a royalty agreement by which Plaintiff was to receive monthly royalty payments. Mitrano Deposition at 52 and Exhibit 2. In pertinent part, the royalty agreement provides as follows:

> Neither party shall have the right to assign its rights or delegate its duties hereunder without the prior written consent of the others during the term of the contract period. [Spirometrics] and its successors shall have the right to sell the technology and rights of the [peak flow monitor] provided [Mitrano Engineering] is given written notice of the sale sixty (60) days prior to the sale, except for the sale to Negantis, notice of which is waived. In each such sale or assignment, the Purchaser or Assignee shall take subject to the terms of this Agreement.

Mitrano Deposition Exhibit 2, at 2-3, ¶ 5. In addition, the agreement provided that Mitrano would receive a larger amount of money per monitor sold after the fifth year "in the event that Spirometrics or any other firm shall purchase the technology." Id. at 5. The royalty agreement was signed by Mitrano and a representative of Spirometrics but not by a representative of Negantis.

At the same time Plaintiff entered into the royalty agreement, he also executed a secrecy agreement with Negantis which provided that Plaintiff would keep confidential his knowledge regarding the technology of the monitor. Mitrano Affidavit ¶ 5; Mitrano Deposition at 84, Exhibit 9. The secrecy agreement is signed by Plaintiff but not by Negantis. Mitrano Deposition Exhibit 9. Plaintiff viewed the secrecy agreement as

an addendum to the royalty agreement. Mitrano Deposition at 85. The secrecy agreement provides, in pertinent part:

> Upon the purchase by Negantis of the Monitor from Spirometrics, Negantis will be the absolute owner of the Monitor and all related technology and information. Neither that purchase nor this agreement shall affect your rights under that certain royalty agreement between you and Spirometrics [its successors and assigns] dated [January 8, 1993.]

Mitrano Deposition Exhibit 9 (the words in brackets are hand-written).

On January 22, 1993, Negantis and Spirometrics entered into an agreement by which Negantis acquired all rights to the monitor. Affidavit of Thomas Hackett (Docket No. 13) ¶ 5 ("Hackett Deposition"). Negantis and Spirometrics then formed a partnership, Spiro-O-Flow Associates, to which Negantis gave a license to use the monitor. Hackett Deposition ¶ 5. The partnership then granted a sub-license to Spirometrics. Id.

Starting in February 1993, Spirometrics made monthly royalty payments to Plaintiff. Mitrano Deposition at 56-57. This lasted until the fall of 1993, at which time Spirometrics experienced financial difficulties and failed to make royalty payments to Plaintiff for four months. Id. at 57-58. During these four months, Spirometrics and Plaintiff negotiated to restart the payments. Id. at 58-62. Plaintiff never attempted to obtain the royalty payments from Negantis.

On March 17, 1994, Mitrano and Spirometrics entered into a contract revising the January 8, 1993, contract. Mitrano Deposition Exhibit 7. The new agreement provides that it is "a

modification of the royalty payments existing between Spirometrics, Inc. and Mitrano Engineering dated January 8, 1993." Id. This agreement was made contingent upon Spirometrics obtaining more financing, and it further provided that the prior royalty agreement would become effective again if Spirometrics sought bankruptcy protection. Id.

On April 25, 1994, Negantis conveyed the monitor to Spirometrics in exchange for a first priority security interest in the product and a $637,000 promissory note. Hackett Affidavit ¶ 7. By a separate agreement on that same date, Negantis assigned its rights under its secrecy agreement with Plaintiff to Spirometrics. Deposition of Terry S. Badger, January 24, 1996, Exhibit 1 ("Badger Deposition").

Spirometrics continued to experience financial difficulties, and in the summer of 1994, Spirometrics stopped making royalty payments to Mitrano and note payments to Negantis. Mitrano Deposition at 78; Hackett Affidavit ¶ 8. Negantis provided notice to Spirometrics that it intended to foreclose on the monitor, and on September 2, 1994, Negantis did so. Hackett Affidavit ¶ 10. On that same date, Negantis transferred the monitor to New VED in exchange for a $637,000 promissory note. Id.; Plaintiff's Statement of Material Facts (Docket No. 14), Exhibit D. This note contains a schedule by which New VED is obligated to make principal payments to Negantis every three months. Plaintiff's Statement of Material Facts, Exhibit D. As of January 24, 1996, although New VED was scheduled to have made

$250,000 in principal payments, it had not made any principal payments. Badger Deposition at 55-57. Negantis, however, had yet to use any of its self-help remedies to retake the monitor. Id. at 56.

After acquiring the monitor, New VED executed several other transactions, the net effect of which was that New VED acquired all of the assets of Spirometrics through the various secured creditors' sales in exchange for assuming all of the obligations of Spirometrics to Negantis and the other lenders. Hackett Affidavit ¶ 14. A representative of New VED, however, alleges that New VED had no intention of assuming any obligation pursuant to the royalty agreement. Id. ¶ 15. In addition, New VED conducts business using the name "Spirometrics Medical Equipment Company" and is located at the same address as Spirometrics, Inc. Badger Deposition at 4-5; Plaintiff's Statement of Material Facts, Exhibits D and E. Neither Negantis nor New VED has made any royalty payments to Plaintiff.

Plaintiff filed a Complaint against New VED, Negantis, and other defendants who have since been dismissed. In the remaining counts of the Complaint, Plaintiff seeks recovery (1) against Negantis and New VED for allegedly making a fraudulent transfer pursuant to the Uniform Fraudulent Transfer Act [UFTA], and (2) against Negantis for breach of contract.

III. DISCUSSION

A. Uniform Fraudulent Transfer Act

The Maine Uniform Fraudulent Transfer Act permits a creditor to avoid a fraudulent transfer, to attach an asset fraudulently transferred, or to invoke other equitable remedies. 14 M.R.S.A. § 3578 (Supp. 1995).

Defendants contend that summary judgment should be granted as to Plaintiff's UFTA claim because (1) the September 2, 1994, sale did not involve a transfer of assets within the meaning of the UFTA, and (2) even if there were a transfer, it was made in exchange for reasonably equivalent value. The Court will address each of these contentions in turn.

First, Defendants note that the UFTA applies only to the transfer of an asset, and "asset" is defined to exclude property that is encumbered by a valid lien. 14 M.R.S.A. §§ 3572(2)(A), (12) (Supp. 1995). Defendants, therefore, argue that the UFTA cannot apply to the September 2, 1994, transaction between Negantis and New VED because the monitor was fully encumbered by a valid lien beginning on April 25, 1994, when Negantis sold the monitor to Spirometrics in exchange for a $637,000 note and a first priority security interest.

The Court is unpersuaded by Defendants' contention. While it may be true that Negantis placed a lien on the monitor by the April 25 transaction, Negantis extinguished the lien prior to the sale to New VED by foreclosing on the monitor. See In re Smith, 119 B.R. 757, 760 (Bankr. E.D. Cal. 1990) (a lien expires naturally when the encumbered asset is foreclosed upon to satisfy the obligation). Therefore, there was no lien on the monitor

when Negantis allegedly transferred it to New VED, and the monitor may be considered an asset pursuant to the UFTA.

Second, Defendants contend that the sale from Negantis to New VED was made in exchange for reasonably equivalent value because New VED assumed the $637,000 obligation owed by Spirometrics. Relying on 14 M.R.S.A. § 3574(2), Defendants argue that reasonably equivalent value was given because New VED acquired the monitor in a "regularly conducted, noncollusive foreclosure sale." Plaintiff does not contest whether $637,000 was adequate consideration; instead, Plaintiff contends that Negantis and New VED did not intend to enforce the $637,000 note.

Whether New VED and Negantis intended for New VED to provide Negantis with reasonably equivalent value in exchange for the monitor is a question of fact. Plaintiff has generated sufficient evidence from which a reasonable jury could infer that the sale by Negantis to New VED was collusive and that the consideration provided by New VED was fictitious. For example, as of January 24, 1996, New VED had not made any principal payments to Negantis, even though the promissory note called for New VED to have paid Negantis $250,000 by that date. Although New VED is in default of the terms of the promissory note, Negantis has not attempted to enforce the default provisions or to recover the monitor. Furthermore, Plaintiff notes that both of the directors of Negantis are directors of New VED and that Thomas Hackett, the President and Treasurer of Negantis, is one of the five directors of New VED. In addition, the Security

Agreement executed between Negantis and New VED on September 2, 1994, is signed by Thomas H. Hackett as the representative of both parties in his capacity as the President of each. Plaintiff's Statement of Material Facts, Exhibit E.

Because there are questions of fact, inter alia, as to whether the foreclosure sale was noncollusive and whether Negantis received reasonably equivalent value, this Court will deny Defendants' Motion for Summary Judgment in regards to Plaintiff's UFTA claim.

B. Breach of Contract against Negantis

Defendant Negantis contends that it did not breach the royalty agreement and, therefore, that summary judgment should be granted in its favor on Plaintiff's breach of contract claim. Negantis argues that it was not a party to the agreement and did not agree to assume obligations pursuant to the agreement. In support of its contention that it has no contractual obligation to Plaintiff, Negantis points to the fact that Plaintiff negotiated only with Spirometrics to modify the royalty agreement.

Plaintiff contends that Negantis was aware of the royalty agreement and of its provision obligating future purchasers and assignees. Plaintiff, therefore, argues that Negantis must have accepted the obligations contained within the royalty agreement.

A party need not have signed a contract to be liable pursuant to it. Indeed, a party may assume, either implicitly or explicitly, the obligations and liabilities imposed by a

contract. See, e.g., 11 M.R.S.A. § 2-210 (1995); Rose v. Vulcan Materials Co., 194 S.E.2d 521, 533-34 (N.C. 1973); McKinnie v. Milford, 597 S.W.2d 953 (Tex. Civ. App. 1980).

There is sufficient evidence from which a reasonable factfinder could conclude that Negantis breached a contract that it made with Plaintiff or that Spirometrics made with Plaintiff and it assumed. The royalty agreement specifically states that it will bind future purchasers and assignees. Because Plaintiff and Negantis entered into a secrecy agreement on January 8, 1996, at the same time Plaintiff and Spirometrics entered into the royalty agreement, it reasonably may be inferred that Negantis knew about the royalty agreement and its assignment provision. Furthermore, the fact that Plaintiff did not negotiate a modification of the royalty agreement with Negantis is not dispositive of whether Negantis is bound by the contract.

It cannot be said, as a matter of law, that Negantis is not bound pursuant to the royalty agreement. Instead, the questions, inter alia, of whether Plaintiff and Negantis intended Negantis to be bound by the contract and whether Negantis was assigned obligations pursuant to the contract are questions of fact that are not appropriate for resolution in the context of this summary judgment motion.

IV. CONCLUSION

Accordingly, it is hereby ORDERED that Defendants' Motion for Summary Judgment be, and it is hereby, DENIED.

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GENE CARTER
Chief Judge

Dated at Portland, Maine this 20th day of May, 1996.